

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Galien	County Berrien
Fiscal Year End 2/28/06	Opinion Date 8/11/06	Date Audit Report Submitted to State 8/31/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

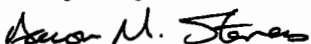
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Rd, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens	License Number 1101024055	

**Village of Galien  
Berrien County, Michigan**

**FINANCIAL STATEMENTS**

**February 28, 2006**

Village of Galien  
Berrien County, Michigan

February 28, 2006

VILLAGE OFFICERS AND TRUSTEES

Clarence Marsh	President
Betty Hoag	Treasurer
Nancy Shaffer	Clerk
Juanita Swank	Trustee
Paul Palmer	Trustee
Mary Leazenby	Trustee
Robert White	Trustee
Ed Shaffer	Trustee
Mitchell Turner	Trustee

Village of Galien

TABLE OF CONTENTS

February 28, 2006

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11
Notes to Financial Statements	12-22
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule	23-24
MAJOR STREET FUND	
Budgetary Comparison Schedule	25
LOCAL STREET FUND	
Budgetary Comparison Schedule	26
POLICE FUND	
Budgetary Comparison Schedule	27
ECONOMIC DEVELOPMENT FUND	
Budgetary Comparison Schedule	28

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and  
Members of the Village Council  
Village of Galien  
Galien, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Galien, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Galien's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Galien, Michigan as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information as identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

August 11, 2006

## **BASIC FINANCIAL STATEMENTS**

Village of Galien

STATEMENT OF NET ASSETS

February 28, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current			
Cash	\$ 376,769	\$ 38,428	\$ 415,197
Cash - restricted	-	50,581	50,581
Investments	75,000	75,000	150,000
Investments - restricted	-	73,571	73,571
Receivables	31,910	13,626	45,536
Internal balances	8,754	(8,754)	-0-
Prepays	5,542	1,206	6,748
Due from other governmental units	20,727	-	20,727
Total current assets	518,702	243,658	762,360
Noncurrent			
Investments	150,000	-	150,000
Investments - restricted	-	112,000	112,000
Capital assets not being depreciated	15,059	20,000	35,059
Capital assets, net of accumulated depreciation	90,610	445,424	536,034
Total noncurrent assets	255,669	577,424	683,093
<b>TOTAL ASSETS</b>	774,371	821,082	1,445,453
<b>LIABILITIES</b>			
Current			
Accounts payable	4,657	137	4,794
Accrued liabilities	4,009	-	4,009
<b>TOTAL LIABILITIES</b>	8,666	137	8,803
<b>NET ASSETS</b>			
Invested in capital assets	105,669	465,424	571,093
Restricted for streets	185,986	-	185,986
Unrestricted	474,050	355,521	829,571
<b>TOTAL NET ASSETS</b>	<u>\$ 765,705</u>	<u>\$ 820,945</u>	<u>\$ 1,586,650</u>

See accompanying notes to financial statements.

Village of Galien

STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities						
General government	\$ 46,507	\$ 9,005	\$ -	\$ (37,502)	\$ -	\$ (37,502)
Public safety	22,949	1,093	-	(21,856)	-	(21,856)
Public works	112,396	5,404	50,296	(56,696)	-	(56,696)
Community and economic development	5,163	3,552	-	(1,611)	-	(1,611)
Recreation and cultural	2,767	3,156	175	564	-	564
Total governmental activities	189,782	22,210	50,471	(117,101)	-0-	(117,101)
Business-type activities:						
Sewer system	97,108	54,442	-	-	(42,666)	(42,666)
Total primary government	\$ 286,890	\$ 76,652	\$ 50,471	(117,101)	(42,666)	(159,767)
General revenues:						
Property taxes				76,264	-	76,264
State shared revenue				54,867	-	54,867
Investment earnings				24,627	14,408	39,035
Gain on equipment disposal				10,600	-	10,600
Miscellaneous				7,457	2,029	9,486
Total general revenues				173,815	16,437	190,252
Change in net assets				56,714	(26,229)	30,485
Net assets, beginning of the year				708,991	847,174	1,556,165
Net assets, end of the year				\$ 765,705	\$ 820,945	\$ 1,586,650

See accompanying notes to financial statements.



Village of Galien

GOVERNMENTAL FUNDS BALANCE SHEET

February 28, 2006

	General	Major Street	Local Street
<b>ASSETS</b>			
Cash	\$ 91,269	\$ 93,145	\$ 98,766
Investments	-	-	-
Receivables			
Accounts	4,853	-	-
Notes	-	-	-
Taxes	7,139	-	-
Prepays	4,667	-	-
Due from other funds	34,425	-	-
Due from other governmental units	11,638	6,550	2,539
<b>TOTAL ASSETS</b>	<u>\$ 153,991</u>	<u>\$ 99,695</u>	<u>\$ 101,305</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,563	\$ -	\$ -
Other accrued liabilities	4,009	-	-
Deferred revenue	-	-	-
Due to other funds	3,868	9,312	5,702
<b>TOTAL LIABILITIES</b>	9,440	9,312	5,702
<b>FUND BALANCES</b>			
Reserved for prepaids	4,667	-	-
Unreserved			
Designated for subsequent year's expenditures	3,370	-	-
Undesignated, reported in:			
General Fund	136,514	-	-
Special Revenue funds	-	90,383	95,603
<b>TOTAL FUND BALANCES</b>	<u>144,551</u>	<u>90,383</u>	<u>95,603</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 153,991</u>	<u>\$ 99,695</u>	<u>\$ 101,305</u>

See accompanying notes to financial statements.

Police	Economic Development	Nonmajor Governmental Fund	Total Governmental Funds
\$ 28,187	\$ 47,404	\$ 17,998	\$ 376,769
-	225,000	-	225,000
-	-	-	4,853
-	19,918	-	19,918
-	-	-	7,139
875	-	-	5,542
-	-	3,868	38,293
-	-	-	20,727
<u>\$ 29,062</u>	<u>\$ 292,322</u>	<u>\$ 21,866</u>	<u>\$ 698,241</u>
\$ 364	\$ 2,683	\$ 47	\$ 4,657
-	-	-	4,009
-	19,918	-	19,918
10,229	250	178	29,539
10,593	22,851	225	58,123
875	-	-	5,542
-	269,471	-	272,841
-	-	-	136,514
17,594	-	21,641	225,221
18,469	269,471	21,641	640,118
<u>\$ 29,062</u>	<u>\$ 292,322</u>	<u>\$ 21,866</u>	<u>\$ 698,241</u>

Village of Galien

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

February 28, 2006

**Total fund balance - governmental funds** **\$ 640,118**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 215,737	
Accumulated depreciation is	<u>(110,068)</u>	
Capital assets, net		105,669

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>19,918</u>
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**Net assets of governmental activities** **\$ 765,705**

See accompanying notes to financial statements.

Village of Galien

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 28, 2006

	General	Major Street	Local Street
<b>REVENUES</b>			
Taxes	\$ 76,264	\$ -	\$ -
Licenses and permits	3,552	-	-
Intergovernmental	57,352	36,303	14,039
Interest and rents	22,337	2,577	2,493
Other	12,345	172	413
<b>TOTAL REVENUES</b>	<b>171,850</b>	<b>39,052</b>	<b>16,945</b>
<b>EXPENDITURES</b>			
General government	27,624	-	-
Public safety	3,427	-	-
Public works	84,879	19,263	14,070
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Other	26,063	-	-
<b>TOTAL EXPENDITURES</b>	<b>141,993</b>	<b>19,263</b>	<b>14,070</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>29,857</b>	<b>19,789</b>	<b>2,875</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	14,073
Transfers out	(40,073)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(40,073)</b>	<b>-0-</b>	<b>14,073</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>(10,216)</b>	<b>19,789</b>	<b>16,948</b>
Fund balances, beginning of year	154,767	70,594	78,655
Fund balances, end of year	<u>\$ 144,551</u>	<u>\$ 90,383</u>	<u>\$ 95,603</u>

See accompanying notes to financial statements.

<u>Police</u>	<u>Economic Development</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 76,264
716	-	-	4,268
-	-	-	107,694
546	11,912	3,494	43,359
<u>598</u>	<u>2,553</u>	<u>1,361</u>	<u>17,442</u>
1,860	14,465	4,855	249,027
-	-	-	27,624
18,755	-	-	22,182
-	-	-	118,212
-	9,554	-	9,554
-	-	2,767	2,767
<u>-</u>	<u>-</u>	<u>-</u>	<u>26,063</u>
<u>18,755</u>	<u>9,554</u>	<u>2,767</u>	<u>206,402</u>
(16,895)	4,911	2,088	42,625
14,000	-	12,000	40,073
<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,073)</u>
<u>14,000</u>	<u>-0-</u>	<u>12,000</u>	<u>-0-</u>
(2,895)	4,911	14,088	42,625
<u>21,364</u>	<u>264,560</u>	<u>7,553</u>	<u>597,493</u>
<u>\$ 18,469</u>	<u>\$ 269,471</u>	<u>\$ 21,641</u>	<u>\$ 640,118</u>

Village of Galien

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

**Net change in fund balances - total governmental funds** \$ 42,625

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 28,354	
Depreciation expense	<u>(11,734)</u>	
Excess of capital outlay over depreciation expense		16,620

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(2,531)</u>
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**Change in net assets of governmental activities** \$ 56,714

See accompanying notes to financial statements.

Village of Galien  
Proprietary Funds  
STATEMENT OF NET ASSETS  
February 28, 2006

	Business-type Activities <u>Sewer System</u>
ASSETS	
Current assets	
Cash	\$ 38,428
Cash - restricted	50,581
Investments	75,000
Investments - restricted	73,571
Receivables	
Accounts, net of allowance for doubtful accounts	13,136
Accrued interest	490
Prepays	1,206
Due from other funds	<u>382</u>
Total current assets	252,794
Noncurrent assets	
Investments - restricted	112,000
Capital assets not being depreciated	20,000
Capital assets, net	<u>445,424</u>
Total noncurrent assets	<u>577,424</u>
TOTAL ASSETS	830,218
LIABILITIES	
Current liabilities	
Accounts payable	137
Due to other funds	<u>9,136</u>
TOTAL LIABILITIES	<u>9,273</u>
NET ASSETS	
Invested in capital assets	465,424
Unrestricted	<u>355,521</u>
TOTAL NET ASSETS	<u><u>\$ 820,945</u></u>

See accompanying notes to financial statements.

Village of Galien

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended February 28, 2006

	Business-type Activities Sewer System
OPERATING REVENUES	
Charges for services	
Usage fees	\$ 43,076
Equipment rental	11,366
Other	2,029
TOTAL OPERATING REVENUES	56,471
OPERATING EXPENSES	
Salaries and wages	31,704
Fringe benefits	14,760
Utilities	1,403
Insurance	2,612
Repairs and maintenance	9,897
Equipment rental	3,458
Other	2,363
Depreciation	30,911
TOTAL OPERATING EXPENSES	97,108
OPERATING (LOSS)	(40,637)
NON-OPERATING REVENUES	
Interest revenue	14,408
CHANGE IN NET ASSETS	(26,229)
Net assets, beginning of year	847,174
Net assets, end of year	\$ 820,945

See accompanying notes to financial statements.



Village of Galien

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended February 28, 2006

	Business-type Activities Sewer System
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 48,175
Cash receipts from other funds	11,040
Cash paid to suppliers	(19,210)
Cash paid for employee benefits	(14,760)
Cash paid to employees	(29,549)
NET CASH USED BY OPERATING ACTIVITIES	(4,304)
CASH FLOWS FROM INVESTING ACTIVITIES	
Maturity of investments	20,871
Interest revenue	14,408
NET CASH PROVIDED BY INVESTING ACTIVITIES	35,279
NET INCREASE IN CASH DURING YEAR	30,975
Cash, beginning of year	58,034
Cash, end of year	\$ 89,009
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (40,637)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	30,911
Decrease in receivables	3,070
Decrease in prepaids	544
(Increase) in due from other funds	(326)
(Decrease) in accounts payable	(21)
Increase in due to other funds	2,155
NET CASH USED BY OPERATING ACTIVITIES	\$ (4,304)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Galien is located in Berrien County, Michigan and has a population of approximately 593. The Village of Galien operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, and utilities services.

The Village Council is made up of the Village President, Clerk, Treasurer, and six (6) trustees who are selected at large for overlapping four-year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Village of Galien (primary government). The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Village of Galien contain all the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the government as a whole. Interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Basis of Presentation - continued

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's local streets.
- d. The Police Fund is used to account for the financial resources that are used to provide police services.
- e. The Economic Development Fund is used to account for the financial resources that are used for the development of the Village's industrial park.
- f. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and major Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the required supplementary information.

- a. Prior to March 1, the Village Council prepares the proposed operating budgets for the fiscal year commencing March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to March 1, the budgets are legally adopted with passage by Council vote.
- d. The budgets are legally adopted at the activity level and total expenditure level for the General Fund and Special Revenue funds, respectively; however, they are maintained at the account level for control purposes.
- e. After the budgets are adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 28, 2006 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council. The individual budgets were appropriately approved by the Village Council in accordance with required procedures. The original budgets were not amended during the year.

6. Cash and Investments

Cash consists of various checking accounts.

Investments consist of certificates of deposit with an original maturity of greater than 90 days. All investments are stated at market value.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

7. Restricted Cash and Investments

A portion of the cash and investments of the Sewer System Fund is classified as restricted cash because their use is limited. The Sewer System Fund's cash restriction is to provide for sewer system improvements.

8. Receivables

Receivables consist of amounts due related to charges for services, loans receivable, and other amounts owed to the Village at year-end.

9. Property Taxes

The Village of Galien bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Galien on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 15 are turned over to the Berrien County Treasurer for collection. The Berrien County Treasurer remits payments to the Village on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 12.5 mills (\$12.50 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 28, 2006, the Village levied 8.6407 mills for general governmental services. The total taxable value for the 2005 levy for property within the Village was \$8,576,070.

10. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as transfers.

The General Fund, Park Fund, and Sewer Fund record charges for equipment rental to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

11. Prepays

Prepaid expenditures in the governmental funds, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in current assets. Reported prepaid expenditures are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of equity.

12. Capital Assets

Capital assets include land, buildings, equipment, vehicles, and the sewer system and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an estimated useful life of one year or greater. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**12. Capital Assets - Continued**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Machinery and equipment	5 - 20 years
Vehicles	5 - 15 years
Buildings and improvements	20 - 40 years
Systems and mains	40 years

**13. Comparative Data**

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146..
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE B: CASH AND INVESTMENTS - CONTINUED**

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 28, 2006, the carrying amount of the Village's deposits was \$951,250 and the bank balance was \$929,333, of which \$200,000 was covered by federal depository insurance. The remaining balance of \$729,333 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of February 28, 2006, the Village did not have any investments that would be subject to rating.

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The cash and investments referred to above have been reported in either the cash or investments captions in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of February 28, 2006:

Cash	\$ 415,197
Cash - restricted	50,581
Investments - current	150,000
Investments - restricted, current	73,571
Investments - noncurrent	150,000
Investments - restricted, noncurrent	<u>112,000</u>
	<u>\$ 951,349</u>

The cash captions in the basic financial statements include \$99 in petty cash.

**NOTE C: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Local Street Fund from:	
General Fund	<u>\$ 14,073</u>

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE C: INTERFUND TRANSFERS - CONTINUED**

Transfers to Police Fund from:	
General Fund	\$ <u>14,000</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ <u>12,000</u>

**NOTE D: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details interfund receivables and payables at February 28, 2006:

Due to General Fund from:	
Major Street Fund	\$ 9,145
Local Street Fund	5,665
Police Fund	10,229
Economic Development Fund	250
Sewer System Fund	<u>9,136</u>
	\$ <u>34,425</u>
Due to Sewer System Fund from:	
Major Street Fund	\$ 167
Local Street Fund	37
Nonmajor governmental fund	<u>178</u>
	\$ <u>382</u>
Due to Nonmajor governmental funds:	
General Fund	\$ <u>3,868</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE E: LONG-TERM CONTRACTS RECEIVABLE**

The Village has a loan to a business made through the Economic Development Fund. The amounts attributable to this long-term contract receivable have been recorded in the Economic Development (Special Revenue) Fund as contracts receivable and deferred revenue. The following is a summary of future annual revenue from the debtor that currently has a signed promissory note with the Village:

Years ending February 28,	Principal	Interest	Total
2007	\$ 3,196	\$ 1,392	\$ 4,588
2008	3,452	1,136	4,588
2009	3,730	858	4,588
2010	4,029	559	4,588
2011	4,353	235	4,588
2012	<u>1,158</u>	<u>6</u>	<u>1,164</u>
	\$ <u>19,918</u>	\$ <u>4,186</u>	\$ <u>24,104</u>



Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE F: CAPITAL ASSETS**

Capital asset activity for the year ended February 28, 2006 was as follows:

	Balance March 1, 2005	Additions	Deletions	Balance Feb. 28, 2006
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 8,380	\$ -	\$ -	\$ 8,380
Construction in progress	<u>2,288</u>	<u>4,391</u>	<u>-</u>	<u>6,679</u>
Subtotal	10,668	4,391	-0-	15,059
Capital assets being depreciated				
Buildings and improvements	27,640	-	-	27,640
Machinery and equipment	71,040	3,500	-	74,540
Vehicles	<u>98,035</u>	<u>20,463</u>	<u>( 20,000 )</u>	<u>98,498</u>
Subtotal	196,715	23,963	( 20,000 )	200,678
Less accumulated depreciation				
Buildings and improvements	( 13,541 )	( 832 )	-	( 14,373 )
Machinery and equipment	( 18,424 )	( 6,438 )	-	( 24,862 )
Vehicles	<u>( 86,369 )</u>	<u>( 4,464 )</u>	<u>20,000</u>	<u>( 70,833 )</u>
Subtotal	<u>( 118,334 )</u>	<u>( 11,734 )</u>	<u>20,000</u>	<u>( 110,068 )</u>
Net capital assets being depreciated	<u>78,381</u>	<u>12,229</u>	<u>-0-</u>	<u>90,610</u>
Total net capital assets	<u>\$ 89,049</u>	<u>\$ 16,620</u>	<u>\$ -0-</u>	<u>\$ 105,669</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 832
Public safety	767
Public works	<u>10,135</u>
Total	<u>\$ 11,734</u>

	Balance March 1, 2005	Additions	Deletions	Balance Feb. 28, 2006
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated				
Machinery and equipment	144,613	-	-	144,613
Sewer system	<u>1,233,254</u>	<u>-</u>	<u>-</u>	<u>1,233,254</u>
Subtotal	1,377,867	-0-	-0-	1,377,867

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE F: CAPITAL ASSETS - CONTINUED**

	<u>Balance</u> <u>March 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Feb. 28, 2006</u>
<b>Business-type activities - Continued</b>				
Less accumulated depreciation				
Machinery and equipment	\$( 144,526 )	\$( 80 )	\$ -	\$( 144,606 )
Sewer system	( 757,006 )	( 30,831 )	-	( 787,837 )
Subtotal	( 901,532 )	( 30,911 )	-0-	( 932,443 )
Net capital assets not being depreciated	476,335	( 30,911 )	-0-	445,424
Capital assets, net	<u>\$ 496,335</u>	<u>\$( 14,292 )</u>	<u>\$ -0-</u>	<u>\$ 465,424</u>

**NOTE G: RISK MANAGEMENT**

The Village participates in a pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for various risks of loss including liability, crime bond and oath, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Village also participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

**NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the activity level. The approved budgets of the Village have been adopted at the activity level and the total expenditure level for the General and Special Revenue Funds, respectively.

During the year ended February 28, 2006, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts</u> <u>Appropriated</u>	<u>Amounts</u> <u>Expended</u>	<u>Variance</u>
General Fund			
General government			
Village council	\$ 4,000	\$ 4,050	\$ 50
Public safety			
Building inspections	2,050	2,913	863
Electrical inspections	450	514	64
Public works			
Highways, streets, and bridges	66,380	75,630	9,250
Streetlights	9,000	9,249	249

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED**

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund - Continued			
Other			
Payroll taxes and fringe benefits	\$ 13,410	\$ 14,838	\$ 1,428
Other financing uses			
Transfer out	33,500	40,073	6,573

**NOTE I: BUILDING AND ZONING FINANCIAL INFORMATION**

The Village elected to report the financial activities of the building and zoning activity in the General Fund. The following is the required information as it relates to this activity for the year ended February 28, 2006.

REVENUES	
Building Permits	\$ 3,552
EXPENDITURES	
Contracted services	<u>3,427</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 125</u>

**NOTE J: FUND EQUITY RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the Village has set aside for specific purposes.

The following are the various fund balance reserves as of February 28, 2006:

Governmental Funds	
General Fund	
Reserved for prepaids	<u>\$ 4,667</u>
Police Fund	
Reserved for prepaids	<u>\$ 875</u>

The following are the fund balance designations as of February 28, 2006:

General Fund	
Designated for subsequent year's expenditures	<u>\$ 3,370</u>
Economic Development Fund	
Designated for subsequent year's expenditures	<u>\$ 269,471</u>

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE K: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of February 28, 2006:

PRIMARY GOVERNMENT

Governmental activities

Restricted for streets \$ 185,986

**NOTE L: SUBSEQUENT EVENT**

Subsequent to February 28, 2006, it was determined that approximately \$18,900 had been misappropriated by a Village employee over the course of a three month period. The Village employee has since repaid the Village and has resigned. As of February 28, 2006, the amount that was owed to the Village totaled \$4,853. This amount is included in the accounts receivable balance in the financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Village of Galien

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 76,860	\$ 76,860	\$ 76,264	\$ (596)
Licenses and permits	2,500	2,500	3,552	1,052
Intergovernmental	60,000	60,000	57,352	(2,648)
Interest and rents	23,150	23,150	22,337	(813)
Other	7,000	7,000	12,345	5,345
TOTAL REVENUES	169,510	169,510	171,850	2,340
EXPENDITURES				
General government				
Village council	4,000	4,000	4,050	(50)
President	1,200	1,200	975	225
Clerk	7,840	7,840	7,652	188
Treasurer	7,685	7,685	7,549	136
Elections	1,400	1,400	-	1,400
Hall and grounds	7,660	7,660	7,398	262
Total general government	29,785	29,785	27,624	2,161
Public safety				
Building inspections	2,050	2,050	2,913	(863)
Electrical inspections	450	450	514	(64)
Total public safety	2,500	2,500	3,427	(927)
Public works				
Highways, streets, and bridges	66,380	66,380	75,630	(9,250)
Drain	5,600	5,600	-	5,600
Streetlights	9,000	9,000	9,249	(249)
Total public works	80,980	80,980	84,879	(3,899)
Other				
Insurance	10,000	10,000	7,439	2,561
Professional services	2,700	2,700	1,563	1,137
Payroll taxes and fringe benefits	13,410	13,410	14,838	(1,428)
Other	4,000	4,000	2,223	1,777
Total other	30,110	30,110	26,063	4,047
TOTAL EXPENDITURES	143,375	143,375	141,993	1,382
EXCESS OF REVENUES OVER EXPENDITURES	26,135	26,135	29,857	3,722

Village of Galien

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING USES				
Transfer out	<u>\$ (33,500)</u>	<u>\$ (33,500)</u>	<u>\$ (40,073)</u>	<u>\$ (6,573)</u>
EXCESS OF REVENUES (UNDER) EXPEDITURES AND OTHER FINANCING USES	(7,365)	(7,365)	(10,216)	(2,851)
Fund balance, beginning of year	<u>154,767</u>	<u>154,767</u>	<u>154,767</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 147,402</u></u>	<u><u>\$ 147,402</u></u>	<u><u>\$ 144,551</u></u>	<u><u>\$ (2,851)</u></u>

Village of Galien

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State				
Gas and weight tax	\$ 30,000	\$ 30,000	\$ 36,303	\$ 6,303
Interest	300	300	2,577	2,277
Other	1,000	1,000	172	(828)
TOTAL REVENUES	31,300	31,300	39,052	7,752
EXPENDITURES				
Public works	51,010	51,010	19,263	31,747
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(19,710)	(19,710)	19,789	39,499
Fund balance, beginning of year	70,594	70,594	70,594	-0-
Fund balance, end of year	\$ 50,884	\$ 50,884	\$ 90,383	\$ 39,499



Village of Galien

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - State				
Gas and weight tax	\$ 11,500	\$ 11,500	\$ 14,039	\$ 2,539
Interest	320	320	2,493	2,173
Other	500	500	413	(87)
TOTAL REVENUES	12,320	12,320	16,945	4,625
EXPENDITURES				
Public works	47,705	47,705	14,070	33,635
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(35,385)	(35,385)	2,875	38,260
OTHER FINANCING SOURCES				
Transfers in	11,500	11,500	14,073	2,573
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(23,885)	(23,885)	16,948	40,833
Fund balance, beginning of year	78,655	78,655	78,655	-0-
Fund balance, end of year	<u>\$ 30,885</u>	<u>\$ 30,885</u>	<u>\$ 112,551</u>	<u>\$ 81,666</u>

Village of Galien

Police Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses and permits	\$ 700	\$ 700	\$ 716	\$ 16
Interest	320	320	546	226
Other	500	500	598	98
TOTAL REVENUES	1,520	1,520	1,860	340
EXPENDITURES				
Public safety	20,440	20,440	18,755	1,685
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(18,920)	(18,920)	(16,895)	2,025
OTHER FINANCING SOURCES				
Transfers in	19,000	19,000	14,000	(5,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	80	80	(2,895)	(2,975)
Fund balance, beginning of year	21,364	21,364	21,364	-0-
Fund balance, end of year	<u>\$ 21,444</u>	<u>\$ 21,444</u>	<u>\$ 18,469</u>	<u>\$ (5,950)</u>

Village of Galien

Economic Development Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ 8,000	\$ 8,000	\$ 11,912	\$ 3,912
Other	-	-	2,553	2,553
TOTAL REVENUES	8,000	8,000	14,465	6,465
EXPENDITURES				
Community and economic development	40,750	40,750	9,554	31,196
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(32,750)	(32,750)	4,911	37,661
Fund balance, beginning of year	264,560	264,560	264,560	-0-
Fund balance, end of year	<u>\$ 231,810</u>	<u>\$ 231,810</u>	<u>\$ 269,471</u>	<u>\$ 37,661</u>

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



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COMMUNICATION OF REPORTABLE CONDITIONS, OTHER COMMENTS,  
AND RECOMMENDATIONS TO MANAGEMENT AND COUNCIL

To the Honorable President and  
Members of the Village Council  
Village of Galien  
Galien, Michigan

Dear Ladies/Gentlemen:

In planning and performing our audit of the financial statements of the Village of Galien for the year ended February 28, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Village of Galien's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

**REPORTABLE CONDITIONS**

SEGREGATION OF DUTIES

During our consideration of the Village's internal controls and our assessment of fraud risk, we noted that the Village does not have an adequate overall internal control design. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.). Currently, the same individual accepts cash receipts, records cash receipts, prepares bank deposits, and makes bank deposits. This issue had been reported in the Village's audit comments and recommendations for the fiscal year ended February 28, 2004.

While this is a common occurrence in small organizations due to the limited number of employees, the Village Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We recommend that the Village review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend the Village Council provide a greater review and supervision of employee functions and procedures. We understand that subsequent to the Village's fiscal year-end and prior to the completion of our fieldwork, that the Village had identified candidates for the positions of Deputy Clerk and Deputy Treasurer. The addition of these positions will allow the Village to further segregate various duties and improve the overall internal control design.

## RECONCILIATION OF SEWER SYSTEM REVENUE AND RECEIVABLES

During our analysis of the Sewer System Fund charges for services and related accounts receivable, we noted that the Village does not currently reconcile the accounts receivable balance in the general ledger with the activity recorded in the manual subsidiary ledger. When the delinquent sewer charges are added to the tax roll and ultimately paid in full when the Village settles the property tax collections process with the County, the revenue received upon settlement has historically been recorded as property tax revenue in the General Fund. When this occurs, the accounts receivable balance in the Sewer System Fund continues to increase even though the charges for service have been paid. This issue had been reported in the Village's audit comments and recommendations for the fiscal year ended February 28, 2004.

A journal entry was proposed to management of the Village to adjust the Sewer System Fund accounts receivable balance in the general ledger as of February 28, 2005, to reflect the collectible charges for services as of that date.

We recommend the Village periodically reconcile the accounts receivable and charges for services balances in the general ledger with the balances recorded in the manual subsidiary ledger. This reconciliation process should occur at least quarterly and consideration should be given to the delinquent sewer charges that are placed on the tax roll.

## MISAPPROPRIATION OF FUNDS

During our initial discussions with management and prior to our acceptance of the audit engagement, we were informed of financial impropriety committed by a Village employee. We were also informed that subsequent to the fiscal year ending, the Village had determined a total amount of the misappropriation, restitution was made, and the Village's attorney reported the circumstances to the Local Audit and Finance Division of the Michigan Department of Treasury.

Through our independent analysis of payroll checks that were inappropriately processed and made payable to the former Village employee, we calculated a total amount of misappropriation of approximately \$18,880, which is approximately \$881 more than the restitution.

We recommend the Village Council consult with their attorney to determine the best course of action related to the additional \$881 of misappropriated funds.

## APPROPRIATE REVIEW OF GENERAL LEDGER REPORTING

During our consideration of the Village's internal controls, we noted that although the Village appropriately adopted budgets for the General and all Special Revenue Funds, the budgets are not periodically compared with actual results. In order to remain in compliance with the Uniform Budgeting and Accounting Act (Act 2 of 1968, Budget Sections as amended) and for the Village's budget to be a meaningful document and useful management tool, management should prepare periodic interim budget vs. actual financial statements for Council to review.

Furthermore, the Uniform Budgeting and Accounting Act requires the Council to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

As explained in Note H to the financial statements, various activities within the General Fund of the Village exceeded the amounts appropriated. We recommend that the Village management provide the Village Council periodic financial reports. We also recommend that the Village Council review such financial reports preferably on a monthly basis, but at least on a quarterly basis. The financial reports should be generated directly from the Village's general ledger and include fiscal year-to-date revenues and expenditures compared to their budgeted amounts. Management should recommend and Council should provide for budget amendments prior to exceeding amounts appropriated.

## PHYSICAL SAFEGUARDS

During the course of our audit fieldwork, we noted that adequate physical safeguards over the accounting records are not being maintained. Specifically, the Village's computerized general ledger is not password protected. As such, access to the accounting records is not limited to employees with designated responsibilities for those records.

We also noted through discussions with management, that during the fiscal year physical safeguards over the Village's credit cards were not being maintained. As a result of the misappropriation of the Village's assets, procedures have since been put in effect that require the Village's credit cards to be kept in a secured location.

We recommend that the Village management restrict access to the accounting records. Employees with access to the accounting records should have a unique password that is only known to that employee. We also recommend that passwords be changed periodically (at a minimum once per year).

## DUAL SIGNATURES

As of the last day of our audit fieldwork, we noted that the Treasurer for the Village was the only authorized check signer on the Village's bank accounts. The uniform accounting procedures and classification of accounts for counties and local units of government in Michigan has been developed under the authority of Act 2, Public Acts of 1968, as amended, and Act 71, Public Acts of 1919, as amended.

The Uniform Accounting Procedures Manual issued by the Department of Treasury contains the basic financial records, documents, and procedures that are applicable to all counties and local units of government in Michigan. That manual states that management is responsible for establishing and maintaining a system of internal controls over the accounting procedures as well as over all assets belonging to the governmental units. One of the internal controls that the Department of Treasury considers to be a "minimum" internal control that must be placed in every unit of government in Michigan is the requirement of dual signatures for all checking accounts. The manual further states that "the dual signatures MUST be the clerk (or deputy clerk) and the treasurer (or deputy treasurer)" of the local unit.

We recommend the Village establish a procedure requiring all disbursements from checking accounts to be dual signed by the Clerk (or the Deputy Clerk) and the Treasurer (or Deputy Treasurer) of the Village. The Village should not use a rubber stamp in providing an authorized signature. Original signatures should be required on all checks.

## TIMELINESS OF DEPOSITS

During our testing of the receipts process, we noted that the Village had cash receipts in excess of \$5,000 that did not get deposited to the Village's bank account until eight (8) days following the date of receipt.

We recommend bank deposits be made at least weekly and more often if the amounts received by the Village are considered substantial.

## BUILDING AND ELECTRICAL PERMITS

The Village contracts for building and electrical inspection services. The building and electrical inspectors issue permits, collect the permit fees, transmit the collections to the Village Hall, and then bill the Village for a percentage of the permit fees collected. Currently, the permits issued serve as a receipt to the resident requiring the building and/or electrical inspection. The permits issued also serve as supporting documentation for the fees charged to the Village for the inspection services rendered.

Because the permits are used in lieu of a receipt, we recommend the Village provide the contractors with triplicate pre-numbered permits and account for the numerical sequence of the permits. We also recommend the contractors indicate the method of payment received (i.e., cash or check) on the copies of the issued permits that are provided to the Village so that the collections transmitted to the Village Hall may be reconciled with the permits. The Village should also verify the accuracy of the invoices received for building and electrical inspection services by comparing them with permits that are issued.

## PROPERTY TAX COLLECTIONS

During our analysis of property tax revenue, we noted that the Village maintains a Current Tax Fund (an Agency Fund) in the general ledger and a separate bank account for tax collections. Local units of government that collect property taxes for other taxing authorities are required to maintain an Agency Fund to account for property tax collections and disbursements to the various taxing authorities; however a Village is only responsible for its own property tax collections. The Uniform Accounting Procedures manual requires the Treasurer to maintain a tax collection receipts journal to provide for an immediate determination of the amount collected. Because the Village only collects the levy for the operations of the Village, this requirement could be satisfied through the use of the general ledger of the General Fund.

We also noted that a substantial portion of the property tax collections for the 2004 levy were not transferred from the Current Tax bank account to the General Fund bank account until May 2005, nor were the transfers recorded in the general ledger until May 2005. Because the Village essentially operates on the cash basis of accounting throughout the fiscal year, transferring the 2004 collections in May of 2005 resulted in an understatement of property tax revenue in the General Fund for the fiscal year ended February 28, 2005, and an overstatement of property tax revenue in the General Fund for the fiscal year ended February 28, 2006.

Journal entries were proposed to management of the Village to increase the property tax revenue balance in the general ledger as of February 28, 2005, and decrease the property tax revenue balance in the general ledger as of February 28, 2006.

We recommend the Village consider eliminating the use of the Current Tax Fund, as the purpose of an Agency Fund is to account for assets held on behalf of others. If the Village chooses to continue to maintain a Current Tax Fund, we recommend that timely bank transfers and general ledger recording of those transfers are made by management in the future. We also recommend that the financial statements are reviewed by Council for accuracy and performance measurement preferably on a monthly basis, but at least on a quarterly basis.

## PAYROLL DISBURSEMENTS PROCESS

During our testing of the payroll disbursements process, we noted that the payroll transactions were generally not posted to the general ledger in a timely manner. In some instances where payroll checks were manually prepared at the beginning of the month, the checks cleared the bank that same month, but were not recorded in the general ledger until the subsequent month.

We also noted four (4) instances where the gross amount of the payroll disbursement did not agree with the amount approved by Council through the budgeting process (i.e., the annual budget for the wage line item divided by the number of pay periods for the year did not equal the gross amount of the payroll disbursement).

We recommend that all transactions be recorded in the general ledger in a timely manner. We also recommend that payroll disbursements be made in accordance with the approved wage rates set by Council through the budget resolution. In the event that changes to a rate of pay are made during the fiscal year, we recommend that such changes be approved and documented in minutes of the Village Council meetings.

## EQUIPMENT RENTAL CHARGES

During the course of our fieldwork, we noted that the equipment rental charges for the years ended February 28, 2005 or 2006 had not been recorded in the general ledger. Equipment rental charges are assessed between the funds of the Village to accurately reflect the actual cost of the various functions of the government. Because the journal entries had not been recorded in the general ledger to reflect equipment rental charges, both the equipment rental revenues and equipment rental expenditures were understated.

Journal entries were proposed to management of the Village to appropriately reflect equipment rental charges in the general ledger for the years ended February 28, 2005 and 2006.

We recommend the Village periodically (i.e. quarterly) record the appropriate journal entries to reflect equipment rental revenue and expenditures in the general ledger. We also recommend that a reconciliation periodically be performed to assure that the sum of all equipment rental revenues equals the sum of all equipment rental expenditures/expenses.

## OTHER COMMENTS AND RECOMMENDATIONS

### ADDITIONAL ADMINISTRATIVE POLICIES AND PROCEDURES

Based on our discussions with management, we noted that the Village has not formally adopted written procedures and policies for certain areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the Village develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We suggest the Village adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Village and detail how the Village would continue to operate in the absence of those critical areas of operation. It is our understanding that the Village is currently developing such a policy.
- b. Conflict of interest policy - A conflict of interest policy will clarify the Village's position on ethical behavior and communicate that position to employees and Council members. We suggest the Village develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and Council members. The Village should also obtain conflict of interest disclosure statements from its employees and Council members.
- c. Fraud prevention policy - A policy on fraud prevention should define the scope of the policy and include a definition of actions constituting fraud and the appropriate procedures to follow when reporting fraud or suspicions of fraud.
- d. Capital asset management policy - We suggest that the Council adopt a policy for the acquisition and disposal of capital assets. The policy should specify the dollar threshold to be used for asset capitalization and that the disposal of capital assets requires formal approval by the Village Council. The policy should also indicate estimated useful lives for each major classification of capital assets. Adoption of the capital asset management policy should be documented in the minutes of the Council meetings.
- e. Accounting policies and procedures manual - We suggest the Village formally document any accounting procedures that are currently in place and supplement this with any Council policies that may be required to support those procedures.
- f. Investment policy - During the course of our audit and through discussions with management, it was noted that although the Village currently has an investment policy, the policy has not been amended to address the reporting requirements of GASB Statement No. 40. Effective for the year ended February 28, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Village's ability to provide services and meet its obligations as they become due.

We suggest that management review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, as necessary. Such policies are required by GASB Statement No. 40 to be disclosed in the notes to the Village's financial statements.

### BUDGETING PROCESS

During our review of the Village's compliance with the budgeting act, we noted that the Village had included a budgeted amount for the sale of capital assets that was reported as a negative expenditure in the General Fund. This amount was part of the budget document that was adopted by Council; however it was not entered into the budget reflected in the general ledger. The approved amount of budgeted revenue for the sale of capital assets was included during the preparation of the audited financial statements.

We suggest that the original budget document adopted by Council reflect amounts for the sale of capital assets as revenues rather than negative expenditures. We also suggest that the legally adopted budget be accurately entered into the general ledger and that Council review the budget vs. actual financial information on a periodic basis.



## NUMBER OF CHECKING ACCOUNTS

During the course of our audit fieldwork, we noted that the Village maintains approximately two (2) checking accounts for each fund. One of the checking accounts for each of the funds operates as a savings account, while checks are drawn from the other account. The Village earns interest on each of the checking accounts.

The Uniform Accounting Procedures Manual indicates the bank accounts that are required by the Department of Treasury. It does not indicate that two bank accounts are required for every fund, although the Department of Treasury will not object to other bank accounts deemed necessary by the local unit.

We suggest that the Village evaluate its bank accounts, determine the minimum number of bank accounts deemed necessary to maintain operations, and close unnecessary bank accounts accordingly.

## COMPUTERIZED GENERAL LEDGER

The Village currently utilizes QuickBooks accounting software to maintain the general ledger, subsidiary ledgers and receipts journals for utility billings and property tax collections, and manually writes checks for accounts payable and payroll disbursements.

We suggest that management evaluate the manual processes throughout the Village's operations as well as evaluate the capabilities of the QuickBooks accounting software to determine where efficiencies could be gained in the day-to-day operations of the Village. If necessary, we also suggest that management obtain sufficient training so that the software package may be appropriately utilized.

The Village may also wish to consider the efficiencies that could be gained by changing to a more sophisticated accounting software package. Accounting software packages are available that would allow the Village to integrate the utility billing activity and property tax collections activity with the general ledger.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the February 28, 2006 financial statements, and this report does not affect our report on those financial statements dated August 11, 2006. We have not considered the internal controls since the date of our report.

This report is intended solely for the information and use of the Village Council for the Village of Galien, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these reportable conditions, other comments, and recommendations with you, and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

August 11, 2006